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TO WHAT EXTENT IS THE USE OF CHOICE ARCHITECTURE AND NUDGE THEORY CONDUCIVE TOWARDS CREATING EFFECTIVE GOVERNMENT POLICIES?

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ABSTRACT

This article aims to evaluate the ways in which choices that are presented to consumers affect their decision-making, which in turn affects the ways in which governments intervene in the free market. Traditionally, governments assume the homo economicus when devising microeconomic intervention approaches. An alternate view on influencing consumer behaviour is explored through the lens of Nudge Theory. It is shown that nudging, as well as other ways of adapting one's decision environment, can be more effective in influencing behaviour than through traditional forms of intervention and coercion. However, the practice of nudging presents evident practical and ethical disadvantages.

KEYWORDS: Nudge theory, choice architecture, intervention, libertarian paternalism.

INTRODUCTION

The case for libertarian paternalism - the notion that economic institutions can affect decision-making while respecting freedom of choice, is clear. Coined by behavioral economist Thaler and scholar Sunstein in 2003, libertarian paternalism upholds the notion that individuals should have the liberty to opt out - while giving them paternalistic nudges. Similarly, asymmetric paternalism refers to policies designed to assist consumers who are prone to acting irrationally, while not harming those who make rational, deliberate decisions.

Choice architects are cognizant of the notions of libertarian and asymmetric paternalism. They capitalize on intrinsic cognitive biases through adjusting the quantity and quality of choices presented. They change the ways in which options are presented to customers. This is done through the employment of "nudges", which influence consumer behaviour by implementing small tweaks, without ultimately affecting the consumer's ability to choose.

In Nudge: Improving Decisions about Health, Wealth, and Happiness, Thaler outlined an example of Nudge Theory in use. (Thaler, 2008) While he was teaching university courses, students would surreptitiously walk out of class. The door had large wooden handles. Thaler noticed that students have the instinct of pulling when faced with a handle instead of pushing to exit a room - yet the door opened outward, meaning that students had to push. Such an example underscores interplay between stimulus (wooden handles) and response (push or pull), demonstrating poor choice architecture. When human instincts contrast with design, choice architecture fails.

On the micro-level, choice architects indirectly modify the choices that other people make. Good choice architects make decisions that merit society. They produce architecture that reflect human behaviour. On the macro-level, governments designate specialized units to influence consumer behaviour through well-chosen nudges. These nudges, as a type of microeconomic intervention, present themselves as special types of incentives that impose cognitive costs.

Government Intervention during the COVID-19 Pandemic

During the coronavirus (COVID-19) pandemic, nudges were used in a variety of ways to encourage people to make safer and healthier choices. In the early stages of the pandemic, the UK government has opted for nudges such as informing citizens to wash their hands, self-isolate if they show common symptoms, as well as presenting scientists at the helm of the effort to combat COVID-19. The UK's main rationale for these nudge-based decisions is to save more coercive nudges for when the pandemic is nearing its peak. Appealing to predictions about human behaviour, the UK government believes that citizens will become fatigued of pandemic restrictions, and thus seek alternative means of bypassing them (Yates, 2020).

In the absence of vaccines and evidence-based treatments, nudges may seem just. A paper published by Jay Van Bavel, associate professor of psychology at New York University and 41 other researchers stressed the importance of "highlighting bipartisan support", "leveraging the impact of norms", and using phrases such as "physical distancing" instead of "social distancing" - a classic example of framing through word choice (Bavel et al., 2020). By relying on the fact that people are highly reactive to the reactions of others, nudges increase the propensity that citizens would abide to acceptable social norms and conventions. Nudges such as "the overwhelming majority of people believe that everybody should practice physical distancing by staying home" act as a mechanism for gently guiding people towards making better decisions. Crowdsourcing user ratings could also help to eschew false information, save for specialized "echo chambers" that actively promulgate misinformation. Though, the effectiveness of using nudging towards various stakeholders is varied. A study by Sanders et al. concluded that loss aversion does not replicate in the COVID-19 pandemic through analyzing individuals' responses to the framing of messages. This study highlights the importance of finding effective nudging policies that induces self-reflection within the individual.

In this case study, the notion of "fatigue" is dubious. How does the UK government know when, or if citizens will feel fatigued upon an imposition of rigid coronavirus measures? Even more importantly, if citizens are fatigued by rigid measures and will circumvent them as a coping mechanism, doesn't the imposition of avoidable measures provide more robust incentives for circumvention? This case study reveals the limitations to the application of Nudge Theory. By capitalizing on the fact that humans invariably fall for psychological biases, behavioral scientists run the risk of large margins of error in the effectiveness of policy-making. While it is unwise to assume the homo economicus, it is equally as unwise to over-compensate for psychological biases. Effective nudges successfully bridge the gap between human instincts and design though a plethora of biases (availability bias, poor heuristics etc.) act as a barricade between human instincts and design.

Nudge Units

"By knowing how people think, we can make it easier for them to choose what is best for them, their families and society," Thaler wrote in his 2008 book Nudge (Thaler, 2008). As an alternative to direct taxes and subsidies, nudges rely on consumers' irrational rules of thumb to maximise utility (Fusaro, 2021).

Some examples of nudges as a form of government intervention include the provision of information about social norms, including one's amount of electricity usage relative to one's neighbors, as well as posters or signs that demonstrate appropriate social behaviour in public places. The imposition of nudges appeals to the innate cognitive nature of herd mentality, capitalizing on the fact that one automatically, invariably, and sometimes irrationally adheres to social norms. The effectiveness of this means of appeal varies between target audiences.

Ever since Thaler and Sunstein introduced the concept of nudging in 2008, many governments have employed behavioral scientists and economists to aid policy-making. A palpable benefit of nudges is that they aid governments in delivering greater benefits at lower costs.

The UK's Behavioral Insights Team (BIT) and the US Federal Government's Office of Evaluation Sciences (OES) are two well-renowned nudge units whose aims are to use behavioral science to assist the government and the private sector, and thus strengthen trust (Bavel et al., 2020). Though the basic theory of nudging remains (and in fact, some argue that "nudging" is just a novel term for influencing behaviour), governments have increased their understanding on which nudges are beneficial towards the consumer.

How does one create effective nudges? The EAST framework, developed by the BIT, answers the "what" question, detailing that nudges should be easy (requires minimal effort to choose), attractive (attracts our attention), social (adheres to the fact that we are social beings), and timely (prompted when individuals are most receptive). One observes that most government nudges adhere to this frame-

work; take people in Switzerland being nudged to automatically enroll in clean-energy programs (Sunstein, 2016). Setting defaults, a common form of nudging, minimise the costs of deciding and choosing what to do. Additionally, research has shown that individuals rarely change their default course of action (Thaler, 2008).

The "when" question is equally, if not more important than the "what" question. The BASIC framework - "Behaviour, analysis, strategy, intervention, and change" prescribes a set of steps towards the effective implementation of behavioral insight frameworks. Though the "when" and "what" and "when" are invaluable in devising nudges, they are oft-generalized and heavily simplified, often ignoring the cognitive biases inherent in the behavioral scientists who put forth these schemes.

Criticism

The reliability of libertarian and asymmetric paternalism arises upon criticisms of Nudge Theory. One may argue that nudges are not paternalistic - i.e., they unequivocally fail in influencing behaviour; or, they are not libertarian - i.e., the nudges are too coercive or manipulative. These issues can largely be alleviated through tweaks in choice architecture. However, two pieces of criticism reign prominent regarding the underlying flaws of Nudge Theory - the fact that nudges induce negative ethical ramifications, and that they produce over-generalized assumptions that fail to bridge the theory-practice gap.

A major challenge associated with the integration of nudges and behavioral insights is a lack of understanding of context. Libertarian interventions should be made on a case-specific basis, as expounded in Muramatsu and Barbieri (2017). A limited understanding of context limits effective choice architecture and evaluation. Through collaborating with stakeholders in policy case teams, BITs can gather more robust frameworks on creating accurate representations of individuals' behaviour when implementing policy.

Typically, a policy unit should start by identifying target behaviours that influence policy issues; taking COVID-19 as an example, policy units identify key behaviours that deter individuals from adhering to proper prevention policies. Diagnostic research is then used to create a sufficient model of societal behaviour, which stipulates how behavioral change can be attained, and techniques that work well in the respective context which facilitates the design of interventions. (Dewies, 2022) It is also imperative to reduce barriers that prevent Nudgists from achieving their goals when designing effective nudges. By reducing extraneous factors that complicate policy units' job, also known as "sludge" in Thaler and Sunstein's Nudge: The Final Edition (2021), stakeholders can facilitate the decision-making process. A key way of reducing sludge is through the clear and specific stipulation of nudging guidelines. This can be facilitated by adopting the opinions of behavioral economists or people who have had field experience.

A pragmatic, or multi-pronged approach to research is invaluable, in which practical research constraints (the most important being the abundance of asymmetric information) ensure that behavioral insight research is specific to specific contexts. This makes frameworks such as the EAST and BASIC framework fail to realize the overall environment in which it is being implemented and the stakeholders it is being used with - not to mention the cases in which the guidelines outlined in EAST / BASIC provide inaccurate representations of individuals' behaviour. This makes expert behavioral knowledge and case-by-case analysis a necessity in designing interventions (Thaler, 2022).

Are nudges a form of manipulation? Many ethicists have expressed concerns regarding the ethical ramifications of Nudge Theory. Bovens (2009) and Wilkinson (2013) has criticized Nudge Theory for its lack of transparency and publicity, as well as the propensity for nudges to manipulate behaviour. It also decreases the autonomy in which individuals choose from. Thaler, in response to critics to nudge theory, stipulated three important criteria when setting nudges:

1. Be transparent
2. Make decisions easy to opt-out of
3. Nudge with people's best interests in mind

In summary, nudging with dignity, or "nudging for good" (Fusaro & Sperling-Magro, 2021), as Thaler and Sunstein put it, is equally as important as ensuring that nudges adhere to the EAST framework. While mere guidelines (as a nudge) fall victim to the aforementioned problems regarding the feasibility of Nudge Theory, it is also important to note that individuals working with ill will often incorporate more damning principles than nudges.

Conclusion

There are clear ramifications of nudge theory as a means to assist government intervention. Of which, the issues of feasibility and ethics are most prominent. Nudging still remains a relatively new practice - in which the frameworks used in deciding nudges may be over-simplified or simply unfeasible. Though the theory of changing how choices are presented may have dated long before the genesis of Nudge Theory in 2008, its underlying principles pervade the gathering of behavioral insights in both private and public sectors.

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